

News Release

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MINISTER OF FINANCE ANNOUNCES A NEW POLICY FRAMEWORK FOR CANADA'S FINANCIAL SERVICES SECTOR

Finance Minister Paul Martin today announced a new policy framework for Canada's financial services sector, which includes domestic and foreign banks, trust companies, insurance companies, caisses populaires, credit unions and other financial institutions.

"This new policy framework is fair and balanced. It will be good for Canadians, and good for the financial services sector itself," Minister Martin said in a statement.

The new policy framework, as outlined in *Reforming Canada's Financial Services Sector: A Framework for the Future*, is guided by four fundamental principles:

- Financial institutions must have the flexibility to adapt to the changing marketplace and to compete and thrive, both at home and abroad, in order to retain their role as critical sources of economic activity and job creation.
- Vibrant competition is necessary to ensure a dynamic and innovative sector and that individual and business consumers have a range of choice at the best possible price.
- Consumers, regardless of their income or whether they live in an urban or rural area, and individual businesses, whether they be large or small, should receive the highest possible standard of quality and service.
- The regulatory burden should be lightened wherever possible, consistent with prudential and public interest objectives.

"The government's role is to ensure that Canada has an appropriate policy framework to facilitate change and to provide ground rules to ensure that it takes place in a way that reflects the needs of all Canadians," the Minister said.

The new financial sector framework is the result of an intensive period of study and public consultation, which was launched in December 1996 with the establishment of the Task Force on the Future of the Canadian Financial Services Sector. Over the last two years the government has listened carefully to the views of Canadians, both through their submissions to the Task Force and to two parliamentary committees that studied and debated its report, as well as through meetings with many individuals, groups and organizations.

The policy paper contains 57 measures that will form the basis of legislation to reform the financial services sector. The government plans to introduce legislation in the House of Commons as soon as feasible.



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“Our goal is to provide Canada’s financial institutions with an environment to stimulate economic growth and innovation in the interest of all Canadians,” the Minister said.

Under the new framework for the financial services sector:

- **Canada’s banks** will benefit from greater flexibility to adapt to the changing business environment, including potential for joint ventures and strategic alliances; a more flexible ownership structure; a new holding company option; a broader range of permitted investments; a transparent merger review process; a commitment to examine capital taxes with the provinces; and streamlined regulatory processes.
- **Canada’s trust companies** will benefit from a broader range of permitted investments, the examination of capital taxes with the provinces and streamlined regulatory processes.
- **Canada’s life insurance companies** will have access to the payments system, a new holding company structure and streamlined regulatory processes.
- **Securities dealers and money market mutual funds** will have access to the payments system.
- **Canada’s credit unions** will be able to restructure themselves to enhance their national presence and better serve their members.
- **Consumers** will have guaranteed access to standard low-cost accounts; a process to adjust to branch closures; increased competition for their business from stronger credit unions and new, community-oriented banks; an agency to ensure that financial institutions adhere to consumer protection policies; and access to an independent ombudsman to ensure that they are treated fairly.
- **Small and medium-sized businesses** will benefit from increased choice among financial services providers (stronger credit unions, new banks, and foreign bank branches) and an independent ombudsman. There will also be a more comprehensive database on small and medium-sized enterprise lending and a new analytical group at Industry Canada to ensure a better understanding of their financing needs.

Attached are highlights of the government’s recommendations to reform the financial services sector.

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Highlights

The following are some of the key recommendations in each of the four major areas covered in the new policy framework for Canada's financial services sector.

Promoting Efficiency and Growth

The government is acting to provide greater structural flexibility for financial institutions to compete in the global marketplace. A regime to permit large mutual life insurance companies to demutualize is already in place.

The government will introduce:

- A new definition of widely held ownership that allows strategic alliances and joint ventures with significant share exchanges.
- A new holding company regime to provide greater structural flexibility.
- A transparent bank merger review process with a formal mechanism for public input.
- An examination of capital taxation policy with the provinces.

Fostering Domestic Competition

The government is acting to increase the degree of competition in the domestic marketplace by:

- Encouraging new entrants with liberalized ownership rules and lower minimum capital requirements.
- Facilitating the ability of the credit unions to compete by allowing a restructuring of their system.
- Expanding access to the payments system to provide additional competition in deposit-like services.
- Allowing foreign banks to offer services to businesses and individual consumers via branches, in addition to subsidiaries.

Empowering and Protecting Consumers of Financial Services

The government is acting to provide better protection for consumers of financial services with:

- Measures to improve access to financial services regardless of income or place of residence, including a standard low-cost account and a process to govern branch closures.
- A Financial Consumer Agency to strengthen oversight of consumer protection measures and expand consumer education activities.
- An independent Canadian Financial Services Ombudsman.
- Measures to prevent coercive tied selling and improve the information consumers receive when purchasing services or making investments.
- Public Accountability Statements for financial institutions to report on their contributions to the Canadian economy and society.
- More and better statistics on and analysis of small and medium-sized business financing to provide a better understanding of their needs.

Improving the Regulatory Environment

The government is acting to make sure that the regulatory environment responds to the evolution of the sector by:

- Improving the governance of the payments system.
- Reducing the reporting burden relating to Canada Deposit Insurance Corporation standards.
- Providing the Superintendent of Financial Institutions with new powers to deal with the potential risks arising from increased competition.
- Streamlining the Office of the Superintendent of Financial Institutions' regulatory approvals process.